

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

SV Financial Inc. /Sauk Valley Bank & Trust Company

Point of Contact:	Dirk J. Meminger	RSSD: (For Bank Holding Companies)	3093919
UST Sequence Number:	1079	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	4,000,000	FDIC Certificate Number: (For Depository Institutions)	35131
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	April 10, 2009	City:	Sterling
Date Repaid ¹ :	N/A	State:	Illinois

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

Loan portfolio declined \$5.1 million from December 2009; due to resolution of non-performing loans which declined \$5.6 million. The bank continued to advance new loans throughout the year; increase in R.E. loan balance. Without the capital we would have less desire to increase our R.E. lending.

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Outstanding real estate loans include \$2.4 million; the notable decline on the CI & AG loans was due to resolution of non-performing assets.

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☒ **Increase securities purchased (ABS, MBS, etc.).**

Outstanding securities increased due to purchase of MBS/Municipality issues. We support local municipalities as well as purchase securities on the open market.

☐ **Make other investments.**

☐ **Increase reserves for non-performing assets.**

☐ **Reduce borrowings.**

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☐ Increase charge-offs.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Sauk Valley Bank increased its leverage and risk based capital ratios and has adjusted its targeted capital operating levels. Management felt it prudent to move to higher capital levels.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

The primary action avoided through the infusion of capital was the prospect of shrinking the bank's balance sheet in order to increase capital ratios. While the bank has always operated as a well capitalized bank, it is recognized that regulators are frequently requiring increased capital ratios beyond the well capitalized standards. The most dramatic impact of shrinkage is the cessation of lending in the community.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The primary action allowed through the infusion of capital was the continued growth of the bank-namely continued lending and acceptance of deposits within our market place. Our lending facilities keep people employed in our communities and many times provide the necessary funding for new businesses to start or relocate to our area. The bank experienced an increased demand for real estate loans due to some institutions ceasing all real estate lending activity. Sauk Valley Bank found itself funding real estate loans to good borrowers in its markets and was pleased to establish new banking relationships and expand some existing ones by adding real estate financing to other lending needs we are currently serving. Further, it should be noted that during the course of the year, demand and savings deposits increased \$12.4 million.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

The benefits of capital infusion into community banks has focused upon the lending supported with the incremental capital. It is just as important to note the reality that banks serve the needs of many businesses, organizations, municipalities and individuals that do not borrow or who have limited borrowing needs. SVB experienced growth on both sides of the balance sheet since the capital infusion. The fact is that local deposits were utilized to fund loans in the local communities. SVB's net non-core funding dependence declined 8.45%; or more than 50% of our net non-core funding ratio during 2010. The infusion and deployment of capital continues to be a success story to date for SVB and the three communities it serves.